

railroads, railroad labor, retired railroad workers and their survivors.

This bill is the product of an historic agreement reached by railroad labor and management following two years of often-difficult negotiations. The benefit improvements that the two sides agreed upon are made possible by changing the current law that limits the investment of Railroad Retirement Trust Fund assets to government securities. Railroad retirement is a two-tiered system: Tier I largely mimics the Social Security system in terms of taxes and benefits, while Tier II provides additional benefits and might be considered the equivalent of a defined benefit employee pension plan. Tier II benefits are financed by a combination of a 4.9 percent payroll tax on employees and a 16.1 percent payroll tax on employers.

Analysis provided by the Railroad Retirement Board's actuary demonstrates that the proposed changes should not affect the solvency of the Railroad Retirement system. The Tier I portion of the program will continue to be invested only in government securities as has long been the case and is appropriate for the social safety net. Only Tier II funds will be eligible for investment in assets other than government securities. The expected improvement in income to the trust fund is based on a fairly conservative projection of the rates of return on such a diversified portfolio—about two percentage points above the return on government securities. In addition, if the investments fail to perform as well as expected, workers' pensions are further protected as the legislation requires that the railroads absorb any future tax increases that might be necessary to keep the system solvent.

This legislation provides the first major benefit improvements to retired railroad workers and their dependents in more than 25 years. The primary improvements are:

(1) Lower retirement age. The age at which employees can retire with full benefits is reduced from 62 years to 60 years with 30 years of service. Today, employees who retire at age 60 or 61 have their annuity permanently reduced by taking 20 percent or more off the Tier I benefit. The annuities of their spouses are also reduced. Lowering the age to 60 actually restores railroad workers to the retirement age that existed before adjustments made back in 1983 to shore up the program's solvency.

(2) Fewer years for vesting. the number of years required for vesting in the Railroad Retirement System is reduced from ten to five years. This change puts the Railroad Retirement System in line with the pension plans of most other industries.

(3) Expanded benefits for widows and widowers. Under current Social Security Law, a widow or widower of a deceased worker receives the full amount of the retirement benefit previously paid to the retiree. In contrast, a widow or widower of a deceased railroad worker is eligible for 100 percent of the Tier I benefit, but only 50 percent of the late retiree's Tier II benefit. The surviving spouse often experiences a dramatic reduction in income at a time when life has already been made more difficult. Under the proposed change, the surviving spouse's annuity would be guaranteed to be no less than the amount the retiree was receiving in the month before death.

(4) Cap on benefits eliminated. Currently, there is a statutory limit on the initial benefit

amount that can be paid to an employee. This limit is computed under a complex formula based on the employee's highest two years of Railroad Retirement and Social Security earnings during the 10-year period immediately before retirement.

This limitation has proved to be unintentionally harsh in two situations. The first involves employees whose lifetime pattern of earnings deteriorated in their last 10 years before retirement due, for example, to job loss or part-time employment.

The second situation involves employees with long railroad careers at modest compensation levels. The Tier II benefit amount is computed under a formula that takes into consideration not only an employee's compensation level, but also length of service. Thus, employees with modest earnings can build up their Tier II benefits through many years of rail service. Because the cap takes into consideration only their modest pre-retirement earnings and completely ignores their long years of service, these employees may have their benefit reduced upon retirement.

Under this legislation, the cap would be repealed for both new and preciously awarded annuities.

(5) Automatic future improvements should the retirement plan become overfunded. Should the plan's assets become greater than an amount deemed necessary by the Railroad Retirement Board to pay benefits, employees and the railroads will be able to use the surplus on a 50-50 basis to improve benefits and lower taxes. H.R. 4844 also reduces significantly the payroll taxes paid by the railroads. This bill allows the railroads' payroll tax for Tier II benefits to decline from the current level of 16.1 percent to 13.1 percent. By the third year following passage of this bill, the railroads stand to gain nearly \$400 million annually from lower payroll taxes. All of these savings go directly to the railroads' bottom lines and can be used to make investments needed in the railroad infrastructure and to improve the wages and working conditions of railway workers. Higher net returns also should make railroad stocks look better to potential investors and improve the railroads' ability to engage in equity financing. Clearly, this is a win-win proposition for both the railroads and its workers.

While I believe this bill provides significant benefits to railroad workers and retirees, I recognize that railroad labor is not united in support for this bill. Two unions, the Brotherhood of Locomotive Engineers and the Brotherhood of Maintenance of Way Employees, do not support this legislation. They believe that the distribution of benefits should be weighted more favorably toward railroad workers and retirees as the monies involved are, after all, part of their overall compensation package. They were especially interested in securing a further reduction in the retirement age as the agreement only returned them to the retirement age that prevailed in 1983.

Just after the agreement was reached, representatives of both those labor unions that supported the agreement and those labor unions that opposed it solicited my support. I felt that it would be in everyone's best interest if railroad labor were united in support of the bill. To work toward achieving consensus within all of rail labor, the Gentleman from West Virginia (Mr. RAHALL) and I made a proposal to railroad management to improve somewhat

the benefit package. We recognized that we could not radically alter the agreement, but we sought to make the proposal more palatable to those who opposed it. Specifically, we suggested that the railroads allow workers to retire at age 58 with actuarially reduced benefits, but with full medical coverage until the employees become eligible for Medicare at age 65. Today, employees can retire at age 60 with reduced benefits; they aren't eligible for medical coverage until age 61. Mr. RAHALL and I believed this was a modest proposal, but unfortunately we were unsuccessful in getting the parties to coalesce around this change.

Although, I would prefer to see unified labor support for this legislation, I believe that this bill is the best that can be obtained under current conditions and therefore I have given it my full support.

At the request of the Ways and Means Committee, we have made some modifications of the mechanics of how these reforms would be implemented.

Those relatively minor modifications deal with how the monies would be administered, with the composition of the group responsible for the investments, and with the way the benefits will be disbursed, but we have not, in any way, altered the fundamental nature of the program. Railroad retirement benefits will continue to be guaranteed, in the final analysis, by the United States Government. This continues to be a federal program and the Congress continues to have authority over it and responsibility for it. The proposed changes do not in any way represent a step toward privatization.

This is a good bill. It is good for workers; it is good for retirees and their survivors; it is good for the railroads, and it is good for the country. I urge all Members to vote for it.

Mr. Speaker, I reserve the balance of my time.

Mr. SMITH of Michigan. Mr. Speaker, I yield myself the balance of my time.

Mr. Speaker, again I thank both the chairman and the ranking member for the time to protest some of my concerns.

Again, nobody else in the Nation, or very few, can have a pension system that is going broke and then reduce the contribution, reduce the taxes that are going in by the employee and the employer, and increase benefits, increase benefits for widows, widowers, and also reduce the age to 60 that these individual workers are eligible for that retirement.

Railroad workers work very hard, they put in a lot of time and a lot of hours, but we cannot afford this \$33 billion cost bill.

Mr. SHUSTER. Mr. Speaker, I am pleased to yield 1 minute to the distinguished gentleman from Omaha, Nebraska (Mr. TERRY).

Mr. TERRY. Mr. Speaker, I rise in support of the 8,000 retirees in my district and the nearly equal number of future retirees from the railroad industry.

One point that I want to make before I talk more is that this body just a few weeks ago rolled back or voted to roll back the tax on social security. The income tax on social security does not go